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SENSITIVE
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TAGS: PREL PGOV OREP HK
SUBJECT: CODEL BERMAN COURTESY CALL ON CHIEF EXECUTIVE
DONALD TSANG

(U) Sensitive but unclassified -- please protect accordingly.
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¶1. (SBU) Summary: In a wide-ranging courtesy call with CoDel Berman August 22, Chief Executive (CE) Tsang expressed concern about legislation under consideration in the United States which would list Hong Kong as a tax haven and plans to restore the Hong Kong Policy Act (HKPA) reporting requirement. Chairman Berman and the delegation undertook to look into the issue of the tax haven listing, which bill is not under the purview of the Foreign Affairs Committee. On the HKPA Report, while the Chairman agreed many of the concerns held in Congress at the time of the handover had not come to pass, there was still an interest in Congress in following Hong Kong's democratic development. While Hong Kong's economic and financial fundamentals have weathered the crisis well, CE Tsang is skeptical a real recovery can occur without a rise in demand from Hong Kong and China's traditional overseas markets. Secretary for Constitutional and Mainland Affairs Stephen Lam also updated the CoDel on Hong Kong-Taiwan relations. End summary.

Two Areas of Concern

¶2. (SBU) In an August 22 courtesy call, Chief Executive (CE) Donald Tsang warmly welcomed the Congressional Delegation led by House Foreign Affairs Committee Chairman Howard Berman, and stressed the long-standing and broad U.S.-Hong Kong relationship. While overall relations are excellent, CE Tsang noted, he did want to raise Hong Kong concerns regarding two pieces of pending legislation, one which would declare Hong Kong a tax haven and another which would restore the Hong Kong Policy Act (HKPA) reporting requirement. Tsang found it ironic given the transparency of Hong Kong's economic and financial system that Hong Kong could be declared a tax haven. He told the CoDel Hong Kong was actively legislating to ensure all its disclosure requirements would be in line with OECD standards, a process he expected would conclude in a few months' time. On the HKPA Report, CE Tsang noted that Hong Kong's democratic progress since the handover is far greater than what occurred under the British, yet there was no reporting requirement when Hong Kong was a colony. Hong Kong is an open society where events are easily monitored, Tsang stressed, so there is no need to put it "under a microscope."

¶3. (SBU) Chairman Berman and members of the delegation concurred in CE Tsang's assessment of Hong Kong's transparent financial system, and undertook to look into the issue of Hong Kong's listing as a tax haven. With regard to the HKPA reporting requirement, Chairman Berman recalled that, when the initial requirement was set, there were concerns whether key institutions such as human rights and the rule of law would endure following the handover. Those fears had not

come to pass. However, the Congress remains interested in the pace of democratic development in Hong Kong. He noted that the language to restore the report came after a perception that the democratic development of Hong Kong had been delayed.

¶ 4. (SBU) CE Tsang recalled that universal suffrage was not mentioned in the Sino-British Joint Declaration, but the PRC had nonetheless written it into the Basic Law. A timetable has been set for Hong Kong's democratic development, which Tsang feels represents a firm commitment by the central government, and now the issue is reaching consensus within Hong Kong. Within LegCo, this means reaching a two-thirds majority including the sectorally-elected functional constituencies, which will effectively need to vote themselves out of existence. Secretary for Constitutional and Mainland Affairs Lam noted that the 2007 National People's Congress Standing Committee had stipulated that universal suffrage elections for the Chief Executive was defined as participation by all of Hong Kong's registered voters. In sum, Tsang suggested that restoring the HKPA reports was not only unnecessary, it "would be an irritant in Sino-U.S. relations in the long run."

Financial Crisis

¶ 5. (SBU) While Hong Kong has weathered the financial crisis better than its regional neighbors, CE Tsang remains cautious. Although there are positive indicators, until and unless trade figures and ship and plane movements through

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Hong Kong increase, he will not believe a full recovery is underway. The Chairman noted, and CE Tsang agreed, that Hong Kong stock and real estate markets were both doing well. However, Tsang believed the key element is a revival in foreign demand in Hong Kong and China's overseas markets. The Chairman asked whether Beijing concerned itself with the regulatory and economic management of Hong Kong. This is our business, CE Tsang replied. We are in contact with Chinese regulators and counterparts much as Hong Kong is in contact with U.S. Fed Chairman Bernanke and other counterparts.

Taiwan

¶ 6. (SBU) Secretary Lam, whose bureau manages relations with Taiwan, briefed the delegation on recent developments in Hong Kong-Taiwan relations. Gambling on the possibility of a Ma Ying-jeou presidency, Hong Kong began making preparations for a change in relations in 2007. In October 2008, the Hong Kong Trade Development Council opened an office in Taipei, the first formal presence by a Hong Kong statutory body in Taiwan. The two sides are also developing an Economic Cooperation Committee, which while meant to promote business-to-business relations, will have government officials as "advisers". In this unofficial context, Lam explained, contacts can occur between the two governments. CE Tsang noted there had also been a steady exchange of official visitors between the two sides, including a visit by Secretary Lam to Taiwan.

¶ 7. (U) Participants:

United States

Chairman Howard Berman
Hon. Eni Faleomavaega
Hon. Jack Kingston
Hon. Diane Watson
Acting Consul General Christopher Marut
Consulate and Congressional Staff

Hong Kong

Chief Executive Donald Tsang Yam-kuen
Secretary for Constitutional and Mainland Affairs Stephen Lam
Sui-lung
Raymond Tam Chi-yuen, Director, Chief Executive's Office
HKSARG staff

¶8. (U) This message was cleared by CoDel Berman.
MARUT